



Overview of rule changes governing international ACH transaction (IAT)

New IAT rules implemented

On September 18, 2009, the most significant ACH rule change in ten years was implemented by the National Automated Clearing House Association (NACHA). The following information provides key points for you to be aware of as you review your ACH transactions to ensure they comply with these new rules. For comprehensive information on this topic, please visit the National ACH Association website provided below under the heading for additional resources.

Post IAT NACHA rule change developments

- 9/25/09 - Bank of Nova Scotia reported to NACHA they are "returning approximately 200 ACH transactions per day, because they are not in the new IAT format." View NACHA communication.
- 9/28/09 - NACHA reports some originators IAT payments are returned because of inappropriate text in required fields; for example, NA or an asterisk.
- 10/26/09 - We have seen some customers originating transactions using the incorrect country name or country codes. This can cause the transactions to reject. Please refer to this site to find the correct country code when originating International ACH Transactions.

It is also important to regularly review the list of currently sanctioned countries and ensure you are not sending transactions destined for these countries.

Review the information below or access all the content from this page in a printer-friendly PDF document ¹.

- Background on the new IAT rules
- Criteria suggested by NACHA for identifying ACH transactions that must use the new IAT format
- IAT preparation checklist
- U.S. Bank SinglePoint[®] ACH IAT preparations
- Additional IAT resources
- New U.S. Bank International ACH product enhancements planned for later in 2009 and early 2010

Background

International ACH transaction (IAT) is the new Standard Entry Class (SEC) Code governing international ACH transactions. IAT replaced the Personal Cross Border (PBR) and Corporate Cross Border (CBR) SEC codes used in cross-border international ACH transactions prior to September 18, 2009.

IAT will incorporate both personal and corporate transactions and will contain the following information required by the Bank Secrecy Act, which includes:

- Originator name, physical address, deposit account number, depository institution name
- Payment amount
- Receiver name, address, account number and financial institution

The new IAT rules were created to align NACHA rules with the Office of Foreign Assets Control (OFAC) compliance obligations required by the Bank Secrecy Act.

- To identify the sender and receiver for each international ACH transaction.
- To make it easier for routing depository financial institutions to comply with the OFAC obligations.

Organizations that must comply with the new IAT rules

- All companies must comply with Office of Foreign Assets Control requirements and are subject to the same penalties as financial institutions.
- All banks will be required to investigate, suspend, block, and report on suspect international transactions.

Consequence of not complying with the new IAT rules

- Corporate originators could have their ACH origination capabilities suspended and/or removed. Additional penalties for OFAC non-compliance can include fines ranging from \$10,000 to \$10,000,000 per occurrence and prison terms for bank employees.

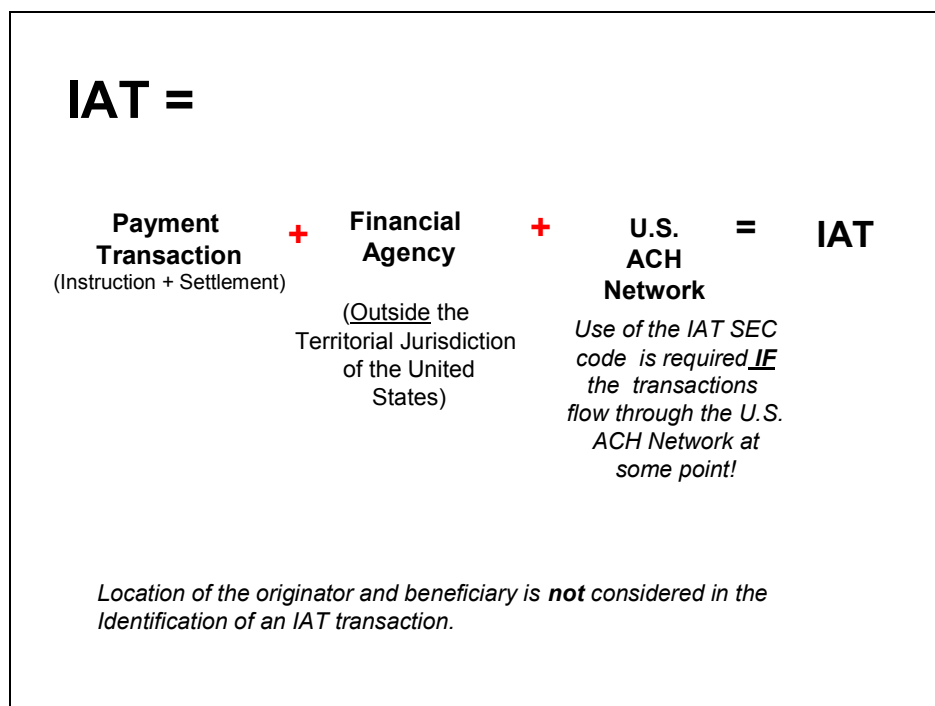
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Criteria suggested by NACHA for identifying ACH transactions that must use the new IAT format

According to NACHA, if all three of the following criteria apply to an ACH transaction, it should be formatted as an IAT transaction:

- Payment instructions are received to create an ACH transaction with explicit funding for the ACH file
 - Funding and data do not have to be included in the same file (payment transaction).
- Funding for the transaction is transmitted to or received from a financial agency located outside the territorial jurisdiction of the United States.
 - A financial agency is defined as an entity that is authorized by applicable law to accept deposits, issue money orders or transfer funds.
 - Territorial jurisdiction of the U.S. includes all 50 states, U.S. territories, U.S. military bases and U.S. embassies located in foreign countries.
- Any part of the transaction is processed through the U.S. ACH network.

View the formula below for an illustration of the components of an IAT transaction.



Following are business scenarios to review that could help to identify a business situation with the potential for requiring an IAT formatted ACH transaction.

- You have customers that do business overseas or you have employees or retirees living overseas.
- You buy or sell internationally through PayPal and similar applications.
- You have sales or other representatives that travel overseas and make purchases using either a debit card or check.
- Your company is a subsidiary of a multi-national company or has foreign subsidiaries.
- Your company buys or sells to organizations or individuals outside the territorial jurisdiction of the United States.
- Your company sends payroll, pension or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States.

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IAT Preparation Checklist

Use the following check list as a tool to ensure your ACH transactions comply with the new IAT rules:

- Familiarize yourself with new NACHA rules related to international ACH transactions.
- Review existing vendor, employee and pension payments to determine if new IAT rules apply to transactions.
- Ensure that your organization has the capacity to capture and provide required information to process international transactions under the new rules.
- Communicate with your ACH software vendor to validate that you have the new IAT format available.
- If you send ACH direct transmission files, schedule testing of your new IAT formatted file with your bank prior to sending an IAT transaction.
- To schedule testing of your ACH direct transmission files in the new IAT format with U.S. Bank, contact your Commercial Customer Service Team or call 800-216-3204 to be redirected to your Commercial Customer Service team.
- Review the U.S. Bank IAT format guide to help in planning for software and system changes to your ACH direct transmission files for IAT transactions.

SinglePoint ACH IAT preparations

As of September 18, 2009, our current SinglePoint ACH service allows customers to create transactions using the new IAT format for Canada and Mexico, and identify domestic transactions that must be sent as IAT under the rules changes. We will offer service to additional countries in early 2010.

SinglePoint users will receive information through SinglePoint LaunchPoint messages regarding preparations for sending ACH transactions with the new IAT format.

Additional IAT resources

Access websites described below.

Visit NACHA's website at www.nacha.org/c/IATIndustryInformation.cfm for IAT industry information and links to the following documents:

- IAT Revised FAQs
- IAT FAQs for Corporates by Arlene Chapman, AFP
- IAT FAQs on Formatting
- IAT Payment Scenarios: Domestic or International
- OFAC Domestic ACH Policy
- Glossary of Terms for International ACH
- IAT Corporate Toolkit

OFAC reporting forms for corporate customers who are party to a blocked transaction, including a request form for release of blocked funds online. www.treasury.gov/resource-center/sanctions/Pages/forms-index.aspx

OFAC Compliance Hotline: 800-540-OFAC.

OFAC maintains a comprehensive website of compliance information including a current Specially Designated Nationals and Blocked Persons list (SDN). www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx

The Federal Reserve Financial Services division has developed an extensive International ACH Transaction (IAT) Resource Center including a three-part training presentation on "Understanding New Requirements in the ACH Network: International ACH Transaction IAT." http://www.frbservices.org/eventseducation/education/fedach_iat_resource_center.html

International Organization for Standardization: website to look to for correct country codes.
www.iso.org/iso/country_names_and_code_elements.html

United States Department of Treasury: View list of sanctioned countries.
www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx

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New U.S. Bank International ACH product enhancements planned for later in 2009 and early 2010

From quarter four of 2009 to quarter one of 2010, U.S. Bank plans to add the following functionality to our International ACH service.

- Capability to obtain the foreign currency exchange rate before batch initiation. Customers can use either the short term (spot) rate or utilize a contract obtained through an FX trader with U.S. Bank.
- Make foreign vendor payments for the exact amount in a foreign currency.
- Submit batches that contain multiple currency types.
- Manage transactions with robust template and batch reports.
- Expand the list of countries to which we offer International ACH services.
- International ACH Services

For additional information regarding U.S. Bank ACH product enhancements, please contact your Treasury Management Consultant or Relationship Manager.